

## Message Text

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66/43

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /102 W

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R 220945Z OCT 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4281

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS TOKYO 15105

C O R R E C T E D C O P Y (CORRECT MRN TO READ 15105 VICE 16105)

PASS TREASURY, FEDERAL RESERVE AND LABOR

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF OCT 15-22

1. SUMMARY: FAILURE OF JAPANESE ECONOMY TO GENERATE NEW SIGNALS OF STRONG RECOVERY IN FINAL DEMAND HAS PROLONGED THE PESSIMISTIC ATMOSPHERE PREVAILING IN JAPANESE BUSINESS COMMUNITY. SMALL SEPT DECLINE IN DEPARTMENT STORE SALES AND CONFIRMATION THAT INDUSTRIAL PRODUCTION FELL IN AUG HAS ADDED TO THIS MOOD. MONETARY EASE ACCELERATES. EP-  
UTY PRIME MINISTER FUKUDA, CONTENDING THAT RECOVERY IS IN FACT UNDERWAY HERE, URGED BUSINESS LEADERS TO EMULATE THOSE IN THE US AND TO TAKE A MORE CONFIDENT ATTITUDE TOWARD JAPAN'S RECOVERY PROSPECTS. END SUMMARY.

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2. DEPUTY PRIME MINISTER FUKUDA NOTED THAT STRONG

U.S. RECOVERY IS MATCHED BY WIDESPREAD CONFIDENCE IN INDUSTRIAL CIRCLES THERE WHEREAS IN JAPAN BUSINESS UPTURN HAS NOT YET BROUGHT ABOUT A REVIVAL OF CONFIDENCE. SPEAKING SHORTLY AFTER HIS RETURN FROM A VISIT TO THE U.S. FUKUDA SAID HE WAS HIGHLY IMPRESSED WITH BOTH THE PERFORMANCE OF THE U.S. ECONOMY AND THE POSITIVE ATTITUDE OF THE BUSINESS COMMUNITY THERE. HE EMPHASIZED THAT THE JAPANESE ECONOMY IS ALSO ON THE UPSWING AND SAID, "I WANT THE BUSINESSMEN OF OUR COUNTRY TO TACKLE ENTERPRISE MANAGEMENT ALSO WITH CONFIDENCE."

3. DEPARTMENT STORE SALES (JEI 302) FELL 2.5 PERCENT IN SEPT ON SEASONALLY ADJUSTED BASIS. THE SALES DECLINE WAS CNCENTRATED IN THE SIX MAJOR JAPANESE CITIES AND SALES IN SMALLER CITIES APPARENTLY ROSE. A MAJOR CAUSE IN THE DECLINE IN TOTAL SALES APPEARS TO BE A LESS THAN NORMAL AUTUMN INCREASE IN SALES OF APPAREL DURING AN UNUSUALLY WARM SEPT. CLOTHING ACCOUNTS FOR 43 PERCENT OF TOTAL DEPARTMENT STORE SALES.

(INDEX, S.A) (PCT. CH. FROM PRIOR MO.)

JULY	225.2	- 4.2
AUGUST	232.4 R	PLUS 3.2
SEPTEMBER	226.7 P	- 2.5

4. MONETARY INDICATORS ADVANCED AT A RAPID PACE IN AUGUST. THE MONEY SUPPLY NARROWLY DEFINED (M1, JEI 123) ROSE .32 PERCENT. THE MONEY SUPPLY BROADLY DEFINED (M2) AND OUTSTANDING LOANS AND DISCOUNTS OF ALL BANKS (JEI 133) INCREASED BY 2.0 PERCENT AND 1.3 PERCENT RESPECTIVELY. THESE WERE THE HIGHEST RATES OF INCREASE SINCE MID-1973 BOOM AND BEGINNING ERE MONETARY RESTRAINT. IN REAL TERMS, INCREASES IN THE MONETARY AGGREGATES ARE EVEN FASTER THAN THAT PREVIOUS PERIOD. AVERGE MONTHLY RATES OF INCREASE FOR THESE INDICATORS IN THE FIRST HALF OF 1975 WERE 0.9 PERCENT FOR M1 AND LOANS AND DISCOUNTS AND 1.2 PERCENT FOR M2.

MONEY AND FUND SUPPLY, SEASONABLY ADJUSTED  
(BIL YEN; PCT. INCR. FROM PRIOR MO. IN PARENTHESES)

	M1	M2	LOANS AND DISCOUNTS
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JUNE	44,105 (1.0)	113,190 (1.3)	83,052 (0.8)
JULY	45,064 (2.2)	114,643 (1.3)	83,880 (1.0)
AUG	46,504 (3.2)	116,979 (2.0)	84,935 (1.3)

5. OFFICIAL DISCOUNT RATE IS TO BE LOWERED TO 6.5 PERCENT WITHIN THIS WEEK, ACCORDING TO REPORTS. THE 1.0 PERCENT DECLINE WOULD BE THE FOURTH SUCH REDUCTION FROM THE PEAK RATE OF 9.0 PERCENT WHICH PREVAILED AT

THE BEGINNING OF THIS YEAR. THE REDUCTION IN THE DISCOUNT RATE HAD BEEN DISCUSSED FOR SOME TIME BUT COMMERCIAL BANKS HAD OPPOSED SUCH A REDUCTION UNLESS DEPOSIT RATES, INCLUDING THOSE FOR POSTAL SAVINGS (THE PRINCIPAL COMPETITOR FOR THE PUBLIC'S DEPOSITS), WERE ALSO REDUCED. CUTS IN DEPOSIT RATES ARE TO BE ANNOUNCED, PERHAPS NEXT WEEK. THE 6.5 PERCENT DISCOUNT RATE WOULD BE THE LOWEST SINCE AUGUST 1973 AND WILL FURTHER REDUCE COMMERCIAL BANK LENDING RATES.  
HODGSON

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEVELOPMENT, REPORTS, ECONOMIC DATA  
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**Disposition Case Number:** n/a  
**Disposition Comment:**  
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Margaret P. Grafeld  
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**TAGS:** ECON, EFIN, ELAB, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006